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RUEHLP/AMEMBASSY LA PAZ FEB 0895
RUEHPE/AMEMBASSY LIMA PRIORITY 2358
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SUBJECT: ECUADOR ECON WEEKLY: Petroleum Contracts, Business Outreach, New Agriculture Minister, State Mining Company

REF: 0025 GUAYAQUIL

¶11. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

Oil Contract Renegotiations Given 45 Days

¶12. (U) In his January 26 weekly radio address, President Correa said that petroleum companies would have 45 days to finish petroleum contract renegotiations. Correa said that oil companies have three options: accept the 99% decree on extraordinary income; change exploration and production contracts to service contracts; or the GOE will reimburse them for their investment and they can leave the country. On January 30, Rene Ortiz, representative of the Hydrocarbon Industry Association, presented a written statement from five companies expressing their openness to change their participation contracts to risk service contracts. However, Ortiz claims that the GOE does not yet have a clear proposal for a new service contract model, making the 45 day deadline for negotiation seem clearly unrealistic.

Correa Meets with the Private Sector

¶14. (SBU) On January 30, Correa met for seven hours with business representatives to demonstrate that his administration is willing to work with the business sector. Correa met with selected sector representatives, rather than representatives of the broader commerce and industry chambers. (Comment: when the Correa administration took office in January 2007, it initially had almost no contact with the business community. Over time, administration officials began to increase contacts with specific sectors. This was the first time, though, the Correa met a broad range of business representatives in a public event.)

New Minister of Agriculture

¶16. (U) On January 21, Walter Poveda was sworn in as the new Minister of Agriculture, replacing Carlos Vallejo. Poveda is an economist from Guayaquil. In 2007, he was General Manager of the National Development Bank (BNF), a government financial institution that loans to the agriculture sector. Poveda also represented the Ecuadorian rice negotiating table at the US FTA negotiations in **¶12003**. In the past, Poveda was an importer of agro-industrial machinery, designer and constructor of agro-industrial plants and machineries for rice and corn. When he took office, Poveda said

that he does not agree with price controls and that he plans to meet with sector representatives to negotiate on price ceilings. On January 29, Poveda clarified that the GOE will maintain controls on rice, milk, corn, bananas and wheat flour. The Ambassador had a cordial courtesy call on the new Minister, accompanied by the Agricultural Attaché. Prospects seem good for continued, even improved, cooperation on FAS and PL-480 programs.

State Mining Company

¶ 7. (U) The GOE is drafting a new Mining Law that might be presented to the Constituent Assembly in February. It appears that key elements of the law are still in flux, but according to media reports one provision would call for the creation of a state mining company, along the lines of state oil company Petroecuador, purportedly to improve regulation in the sector. The company would focus on strategic alliances with private mining companies to mitigate exploration risk of the state company working on projects alone. Supposedly the first strategic alliances company would be with the Chimborazo and Guapan Cement companies (both are state owned) to mine limestone.

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